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# Equity and Affordability Metric: Achieving the Goal of Affordable Utility Service for All



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# About NCLC:

- Since 1969, the nonprofit National Consumer Law Center® (NCLC) has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S.
- NCLC's expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitative practices, help financially stressed families build and retain wealth, and advance economic fairness.

# Roadmap

- Affordability
  - as defined in statute
  - as experienced in Illinois
- PBR
  - Timeline
  - References to affordability metric in statute
  - \$ value to customers (not as much as one would hope)
- Setting the appropriate level of PBR incentive points
- Zip code level disconnection data and what it means for the affordability metric
- Preliminary conclusions:  
PBR Equity and Affordability Metric

# What Constitutes an Affordable Utility Bill?

- Illinois Energy Assistance Act, which created Percentage of Income Payment Program (PIPP), sets affordable bills at 6% of monthly income.
- Even with LIHEAP, PIPP, energy burden (% of monthly income going to paying energy bills) greatly exceeds 6% for very low income customers. (0-50% FPL -- 25% energy burden AFTER receiving LIHEAP benefit.)

# The reality of energy affordability in Illinois

## LIHEAP

Percent of Poverty	Application Count	Utility Bill	LIHEAP Benefit	Income	EB Prior	EB After
0-50	61,392	2,171	913	4,940	44%	25%
51-100	113,810	2,067	692	12,930	16%	11%
101-150	76,348	2,075	526	20,364	10%	8%
<b>Grand Total</b>	<b>251,550</b>	<b>2,092</b>	<b>681</b>	<b>13,848</b>	<b>15%</b>	<b>10%</b>

## PIPP

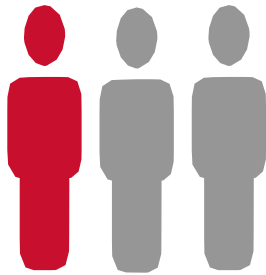
Percent of Poverty	Application Count	Utility Bill	PIPP Benefit	Income	EB Prior	EB After
0-50	2,331	2,102	1,041	5,839	36%	18%
51-100	13,235	2,051	978	10,868	19%	10%
101-150	8,069	2,266	906	17,151	13%	8%
<b>Grand Total</b>	<b>23,635</b>	<b>2,129</b>	<b>960</b>	<b>12,517</b>	<b>17%</b>	<b>9%</b>

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EB = Energy Burden; Source: DCEO PAC presentation, April 2020

# Energy Insecurity, Pre-COVID-19

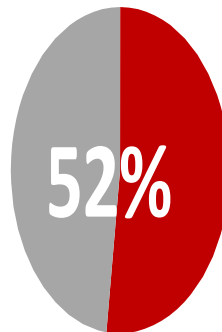
- U.S. Energy Information Administration:



25  
Million

25 million households reported *forgoing food and medicine to pay energy bills* in at least some months and 7 million had to forgo food and medicine almost every month.

Nearly 1 in 3 U.S. households faced *challenges in paying energy bills* or keeping their homes heated or cooled in 2015, as did 50% of households with less than \$20,000 in annual income.



52% of African American households *reported experiencing household energy insecurity*, as did 44% of Latinx Households.

# PBR requirements and timeline

- (d) Multi-Year Rate Plan.
- (1) Ameren and ComEd may file a petition proposing tariffs implementing a 4-year Multi-Year Rate Plan no later than, January 20, 2023, for delivery service rates to be effective for the billing periods January 1, 2024 through December 31, 2027.
- The Commission shall issue an order approving or approving as modified the utility's plan no later than December 20, 2023. The term "Multi-Year Rate Plan" refers to a plan establishing the base rates the utility shall charge for each delivery year of the 4-year period to be covered by the plan (2024-2027)...

# PBR requirements related to equity and affordability

- 16-108.18(c):
- Through coordinated, comprehensive system planning, ratemaking, and performance incentives, the performance-based ratemaking framework should be designed to accomplish the following objectives:
- ...(5) maintain the affordability of electric delivery services for all customers, including low-income customers;
- ...(8) address the particular burdens faced by consumers in environmental justice and equity investment eligible communities, including shareholder, consumer, and publicly funded bill payment assistance and credit and collection policies, and ensure equitable disconnections, late fees, or arrearages as a result of utility credit and collection practices, which may include consideration of impact by zip code;



# PBR requirements related to equity and affordability

- 16-108.18(e)(1) “It is therefore in the State's interest for the Commission to establish performance incentive mechanisms in order to better tie utility revenues to performance and customer benefits, accelerate progress on Illinois energy and other goals, ensure equity and affordability of rates for all customers, including low-income customers, and hold utilities publicly accountable.”
- 16-108.18(e)(2): For each electric utility, the Commission shall approve metrics designed to achieve incremental improvements over baseline performance values and targets, over a performance period of up to 10 years, and no less than 4 years.
  - (A) The Commission shall approve no more than 8 metrics, with at least one metric from each of the categories below, for each electric utility, from subparagraphs (i) through (vi) of this subsection (A).
  - (iv) Achieve affordable customer delivery service costs, with particular emphasis on keeping the bills of lower-income households, households in equity investment eligible communities, and household in environmental justice communities within a manageable portion of their income and adopting credit and collection policies that reduce disconnections for these households specifically and for customers overall to ensure equitable disconnections, late fees, or arrearages as a result of utility credit and collection practices, which may include consideration of impact by zip code.

# Keeping PBR in perspective, rate-wise

- 16-108.18(e)(2)(B):
- Incentives shall be rewards or penalties or both, reflected as basis points added to, or subtracted from, the utility's cost of equity. The metrics and incentives shall apply for the entire time period covered by a Multi-Year Rate Plan. The total for all metrics shall be equal to 40 basis points, however, the Commission may adjust the basis points upward or downward by up to 20 basis points for any given Multi-Year Rate Plan, as appropriate, but in no event may the total exceed 60 basis points or fall below 20 basis points.
- Current ROE under formula rates: 8.38%
- Anticipated change w/ PBR ratemaking: approx. 9.50%
- Metrics must be aspirational and require effort – otherwise, utilities could easily achieve profit levels of over 10%

# Setting the appropriate level of PBR incentive points

- 16-108.18(e)(2)(F):
- In determining the appropriate level of a performance incentive, the Commission shall consider: the extent to which the amount is likely to encourage the utility to achieve the performance target in the least cost manner; the value of benefits to customers, the grid, public health and safety, and the environment from achievement of the performance target, including in particular benefits to equity investment eligible community; the affordability of customer's electric bills, including low-income customers, the utility's revenue requirement, the promotion of renewable and distributed energy, and other such factors that the Commission deems appropriate. The consideration of these factors shall result in an incentive level that ensures benefits exceed costs for customers.

# PBR requirements vs. Existing Incentive Compensation

- 16-108.18(d) (PBR ratemaking subsection)
- ...(G) Allow recovery of incentive compensation expense that is based on the achievement of operational metrics, including metrics related to budget controls, outage duration and frequency, safety, customer service, efficiency and productivity, environmental compliance and attainment of affordability and environmental goals, and other goals and metrics approved by the Commission. Incentive compensation expense that is based on net income or an affiliate's earnings per share shall not be recoverable.
- Existing incentive compensation goals for Credit and Collections managers (that focused on reducing bad debt as a primary goal) will need to change – now.

# What Zip Code data reveals:

- We now have disconnection data transparency: utilities now file monthly disconnection data by zip code following 20-0309 settlement and incorporation of monthly zip code metrics in new law
- Tufts University analysis of zip-code-level disconnection data, 2013-2020:
  - In 2018–2019, customers in Black and Hispanic zip codes were about 4 times more likely to be disconnected for nonpayment, controlling for zip code distributions of income and other demographic characteristics.
  - During the COVID-19 pandemic, there has been a ninefold expansion in low-income assistance to pay utility bills, but disconnections were double and deferred payment plans triple their historical averages in October 2020. Disconnection notices were served to 2.5% of commercial and industrial accounts, and 3.4% of residential accounts each month in late 2020. About 20% of all accounts were charged late fees. The odds for each of these measures were multiples higher in minority zip codes.
- Conclusion: Significant change in disconnection practices is needed – now and in future metrics – to remove these disparities in impact of disconnection policies.

■ Source: *The incidence of extreme economic stress: Evidence from utility disconnections*, Steve Cicala, Tufts University. <http://www.stevecicala.com/papers/disconnections/disconnections.pdf>

# Preliminary conclusions: PBR Equity and Affordability Metric

- Much can be done to eliminate disproportionate impact (reduce disconnections in certain zip codes) both now and in a PBR equity and affordability metric:
  - Increase arrearage disconnection trigger amount (e.g., \$300 too low)
  - Revisit algorithm that puts some customers higher on the disconnection chain than others
  - Don't increase likelihood of disconnection because of incurrence of late fees
- Achievement of these equity goals cannot wait until 2024, given the zip code disconnection data
- The metric should be ambitious and achievable in shortest period permitted

# Preliminary conclusions:

## PBR Equity and Affordability Metric

- New statute emphasizes a new definition of affordability – one that specifically takes into account the energy burdens of low income customers and what's happening with credit and collections actions, including disconnections, by zip code
- Need more information from utilities to establish PBR metrics and baselines
- In setting new metric related to affordability, and the appropriate baseline, we need a close examination of utility-held data (through discovery)
- The PBR statute's repeated references to this new affordability metric suggests that it should occupy a significant portion of the 60-point PBR spread.



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